INTERNATIONAL LABOUR OFFICE

Governing Body
310th Session, Geneva, March 2011 **GB.310/PFA/13/1**

Programme, Financial and Administrative Committee **PFA**

FOR DECISION

THIRTEENTH ITEM ON THE AGENDA

Pension questions

Decisions of the United Nations General Assembly on the report of the Board of the United Nations Joint Staff Pension Fund

Overview

Issues covered

This report covers the major issues discussed by the Board of the United Nations Joint Staff Pension Fund at its 57th Session in July 2010, and the decisions taken by the United Nations General Assembly on the Board's recommendations.

Policy implications

Decisions taken by the General Assembly negatively affect the pension entitlements of ILO staff members under part-time arrangements.

Legal implications

None.

Financial implications

None.

Decision required

Authorize the Director-General to convey to the United Nations Secretary-General on behalf of the ILO concern regarding respect for the role of the Board and the constituents represented in it in the determination of benefits provided by the Fund.

References to other Governing Body documents and ILO instruments

None.

1. A summary of the meeting of the Board, its report to the United Nations (UN) General Assembly [1] and the latter's resolution [2] on the Board's recommendations are set out below.

Investment management

2. The market value of the Fund's assets increased from US$29.0 billion on 31 March 2009 to US$38.3 billion on 31 March 2010. After adjustment for inflation, this represented a real rate of return of approximately 29 per cent, as compared to a return of negative 28 per cent during the previous reporting period. The Fund outperformed the Wilshire Trust Universe Comparison Service, the largest peer group comparison index, and was in the top quartile in all periods of all Trust Universe Comparison Service public funds with assets of more than $1 billion for the three, four, five and seven year periods ending in December 2009.

3. The investment management follows a relatively cautious strategy of minimizing risk to obtain overall positive returns and preserve the Fund's principal over the long term. The Fund is actively managed through diversification of investments by asset class, sector, industry, currency and geographic location. [3] During the last two years, the Fund has employed information technology resources to provide more timely and detailed risk analyses. It is broadening its financial and geographical diversification by investing in alternative assets on an incremental basis. These new asset classes are limited to a small percentage of total assets and will contribute positively to the overall risk reduction of the portfolio.

Actuarial valuation

4. The actuarial valuation of the Fund is carried out every two years. Its main purpose is to determine whether the current and estimated future assets of the Fund will be sufficient to meet its liabilities under the present contribution rate of 23.7 per cent of total pensionable remuneration (7.9 per cent paid by the employee and 15.8 per cent paid by the employer). The valuation at 31 December 2009 exhibited a small deficit of 0.38 per cent of pensionable remuneration. [4] This deficit was mainly attributable to the lower than expected investment returns linked to the financial crisis and, to a lesser extent, to the introduction of new mortality tables reflecting the increased longevity of beneficiaries. These negative factors had been partially offset by lower than expected inflation and thus lower than expected cost-of-living adjustments.

[1] General Assembly, Official Records, 65th Session, Supplement No. 9, A/65/9, document A/65/567 and related documents.

[2] A/RES/65/249.

[3] The strategic asset allocation is as follows: 60 per cent equities, 31 per cent fixed-income, 6 per cent real estate and 3 per cent short-term investments. These weightings are periodically rebalanced in consideration of risk levels and market conditions. The tactical (short-term) asset allocation range is plus or minus three to seven percentage points from the Fund's strategic asset allocation, depending upon the type of asset class. The asset allocations and the market value of the Fund are also affected by currency fluctuations, as more than half of the investments are in currencies other than US dollars and the US dollar is used for reporting purposes. Further information is available on the Pension Fund's website www.unjspf.org.

[4] Actuarial valuations from 1997 through 2007 exhibited the following surpluses: 0.36, 4.25, 2.92, 1.14, 1.29, and 0.49 per cent of total pensionable remuneration.

5. The actuaries confirmed that the Fund is financially stable, that the long-term real return objective of 3.5 per cent is still realistic for the Fund, and that the current contribution rate of 23.7 per cent remains valid. They indicated that corrective measures would need to be considered only if the Fund were to experience a series of consecutive deficits in the future.

Working Group on Plan Design

6. The Board discussed the final report of its tripartite working group, which had analysed and prioritized a series of proposals to improve the pension scheme. Many of these proposals involved associated cost increases or savings and had to be reviewed in the context of the plan's overall structure and long-term financial stability. The UN General Assembly had stated previously that it would not approve any benefit improvements until the Fund had experienced a consecutive trend of actuarial surpluses. Given the demographics of the Fund, the actuaries had recommended that a surplus of approximately one to two percent of pensionable remuneration should be retained to serve as a buffer against future economic and financial volatility. Considering the need to establish a reserve and the results of the recent actuarial valuation, the Board was not able to recommend any benefit improvements at this time.

7. The Board discussed at length an increase in the normal retirement age to 65 and a modification of the early retirement reduction factors. The savings generated would partially offset the actuarial costs associated with greater longevity. However, noting that any change in retirement age or in the early retirement reduction factors should be coordinated with the human resources policies of member organizations, no decision was taken pending a review of these matters by the relevant bodies.

Review of the two-track feature of the pension adjustment system

8. Pension entitlements are in US dollars. The two-track pension adjustment system (PAS) [5] is available to beneficiaries who reside in non-US dollar countries. Approximately 30 per cent of all beneficiaries choose this optional feature. The basic principle of the PAS is that all duty stations should have equitable income replacement ratios (initial pension expressed as a percentage of final average salary at the date of separation). The Board reviews the cost and functioning of the two-track system on an annual basis. It has concluded that the existing system is functioning fairly well.

9. As reported previously, the Board examined a proposal to replace the current final 36-month average exchange rate that is used to calculate the initial pension on the local track (country of residence) with the 120-month average exchange rate. While this would be the preferred solution to address fluctuations in the pensions of Professional staff at different dates of separation, the Board could not recommend any change, given the additional actuarial cost of this measure. Any future change would require further discussion by the Board and close examination of the impact on the long-term financial health of the Fund.

[5] The pension adjustment system (PAS) is designed to protect the purchasing power of pension benefits. Further information is available on the Pension Fund's website www.unjspf.org.

Voluntary pension contributions during part-time employment

10. Since 1990, the ILO offers part-time employment at 50 and at 80 per cent, which supports human resource policies on flexible employment arrangements and a positive work–life balance. Additional part-time employment options are being developed. During part-time employment, contributory service accrues on a pro-rata basis. Contribution on a full-time basis during part-time employment is subject to an amendment to the Fund's Regulations. According to article 49 of the Regulations, amendments are made by the UN General Assembly upon recommendation of the Board.

11. In 2008, the UN General Assembly had rejected the Board's proposal to permit the voluntary purchase of additional pension contributions, at the expense of the staff member, which would enable the participant to accrue contributory service at 100 per cent during the part-time employment.

12. In 2010, the Board reformulated and resubmitted a revised proposal to address the concerns that the UN General Assembly had previously expressed. In particular, the possibility of purchasing additional contributions during part-time employment periods was assessed to have no direct financial implication for the Fund, and was proposed to be limited to the maximum period during which voluntary contributions can be paid under the Fund's Regulations while a participant is on special leave without pay, and to be offered only to full-time officials while on short periods of part-time employment mainly for family reasons. The proposal was thus a response to increasing demands for more flexible working arrangements and policies on work–life balance, as well as concerns on equal opportunities for men and women.

13. This proposal had the renewed unanimous support of the representatives of participants and member organizations. In addition, no objections were voiced by the representatives of the governing bodies. Nevertheless, the General Assembly again, without giving any compelling explanation, rejected the Board's recommendation.

14. The Director-General has concerns about the purpose and usefulness of the ILO's active participation in the Fund's governance structure. In particular, the Director-General questions the appropriateness of dismissing a proposal which has unanimous support from the Board on technical issues with no financial implications for member States or the Fund. He therefore considers that the ILO, as a member of the Board, and together with other interested organizations, has a duty to express concern over the lack of consideration shown for the role of the Pension Board and the entities represented in it with regard to the proposal on part-time employment, and generally to the decreasing weight of organizations and staff representatives in decisions pertaining to the common system.

15. ***The Committee may wish to recommend to the Governing Body that it request the Director-General to express on its behalf the concerns referred to above in a formal communication to the UN Secretary-General.***

Other issues

16. The Board examined the revised budget provisions, the implementation of new international accounting standards that conform to similar initiatives in member organizations, the report of the medical consultant and other administrative matters.

Geneva, 3 February 2011

Point for decision: Paragraph 15